

**CITY OF SAN JOSE**  
**2004-2005 ADOPTED OPERATING BUDGET**

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**DEBT SERVICE OBLIGATIONS**

**Overview**

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue or lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, Redevelopment Agency debt and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue or lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City Budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The City of San José Financing Authority Reassessment Revenue Bonds, Series 1994A and 1994B, were issued to refund six series of City of San José special assessment bonds.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.
- The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

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**DEBT SERVICE OBLIGATIONS (CONT'D.)**

**Overview (Cont'd.)**

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for general obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

**Debt Status and Capacity**

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. The total taxable assessed value on the City's 2004-2005 tax roll is estimated at \$91.9 billion, which results in a total debt capacity of approximately \$13.8 billion. As of June 30, 2004, the City had \$178.48 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total estimated outstanding debt as of June 30, 2004, is \$3.54 billion (See Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's mutli-family housing program, was adopted by the City Council on June 11, 2002.

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### DEBT SERVICE OBLIGATIONS (CONT'D.)

#### Debt Status and Capacity (Cont'd.)

During 2004-2005, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise and land-secured financings.

Descriptions of the City of San José's debt activity for 2003-2004 as well as issues planned for 2004-2005 are provided in the following sections.

#### 2003-2004 Debt Issues

The Finance Department partnered with several City departments on projects that resulted in debt financing during 2003-2004.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2003J (Taxable) and Series 2003K** On July 10, 2003, the Redevelopment Agency issued \$55.265 million of Series 2003J (taxable) and \$13.735 million of Series 2003K housing set-aside tax allocation bonds (the "Refunding Bonds"). The bond proceeds were used to current refund the Agency's Series 1993A and Series 1993B housing set-aside tax allocation bonds and advance refund the Agency's Series 1993C housing set-aside tax allocation bonds (collectively, the "Refunded Bonds"), repay \$12.635 million of the existing \$50 million line of credit with Bank of New York and fund additional affordable housing projects. The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.45%, and have a final maturity date of August 1, 2029.
- **City of San José CFD No. 10 (Hassler – Silver Creek), Special Tax Bonds, Series 2003** On July 23, 2003, the City issued \$12.5 million of special tax bonds to finance the acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 ("CFD No. 10"). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

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**DEBT SERVICE OBLIGATIONS (CONT'D.)**

**2003-2004 Debt Issues (Cont'd.)**

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Revenue Bonds (Subordinate Tax Allocation), Series 2003A (Taxable) and Series 2003B**  
On August 27, 2003, the Redevelopment Agency issued \$45 million of Series 2003A (taxable) and \$15 million of Series 2003B revenue bonds. The bond proceeds were used to finance redevelopment activities within the Agency's Merged Area Redevelopment Project. Debt service is payable on a subordinate basis from the Agency's tax increment revenues. The Series 2003A bonds were issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2028. The Series 2003B bonds were also issued as variable rate securities, bearing interest initially at a weekly rate, and have a final maturity of August 1, 2032.
- **City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project)** On September 18, 2003, the City of San José Financing Authority issued \$22.625 million of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority's Series 1993D lease revenue bonds issued to acquire and construct the City's Central Service Yard. The refunding generated a net present value saving of \$987,721. This saving represents a 4.45% net present value reduction in debt service payments while maintaining the final maturity date of the debt. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2003** On December 22, 2003, the Redevelopment Agency issued \$135 million of Series 2003 tax allocation bonds. The bond proceeds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues. The Series 2003 bonds, which are insured by Financial Guaranty Insurance Company, bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of August 1, 2033.
- **City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program** On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98 million. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

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### DEBT SERVICE OBLIGATIONS (CONT'D.)

#### 2003-2004 Debt Issues (Cont'd.)

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2004A** On May 27, 2004, the Redevelopment Agency issued \$281.985 million of Series 2004A tax allocation bonds. The bond proceeds were used to refund a portion of the Agency's outstanding Merged Area Redevelopment Project Tax Allocation Bonds. The refunding generated net present value savings of \$10.407 million. This savings represents a 3.34% net present value reduction in debt service payments while maintaining the final maturity date of the debt. Debt service is payable from the Agency's tax increment revenues. The Series 2004A bonds, the majority of which are insured by MBIA, bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2019.
- **City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre of San José Expansion Project)** On June 3, 2004, the City of San José Financing Authority issued \$9.225 million of Series 2004A taxable lease revenue bonds. The bond proceeds will be used to expand and renovate portions of the City's Logitech Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, Silicon Valley Sports and Entertainment. The Series 2004A Bonds, which are insured by MBIA, were issued as auction rate securities, accruing interest at auction rates for successive 28-day auction periods, and have a final maturity date of December 1, 2024.
- **City of San José Airport Revenue Bonds, Series 2004A (AMT), Series 2004B (AMT), Series 2004C (AMT), and Series 2004D (Non-AMT)** On June 24, 2004, the City issued \$70 million of Series 2004A, \$70 million of Series 2004B, \$75.73 million of Series 2004C, and \$34.27 million of Series 2004D airport revenue bonds (the "2004 Bonds"). The proceeds of the 2004 Bonds will be used to pay (and to refund commercial paper notes issued to pay) a portion of the costs of designing and constructing certain security-related capital improvements at the Norman Y. Mineta San José International Airport. Debt service on the 2004 Bonds will be paid from General Airport Revenues and certain other funds. The 2004 Bonds are insured by MBIA.

The Series 2004A Bonds were issued as auction rate securities, accruing interest at auction rates for successive 7-day auction periods, and have a final maturity of June 1, 2034. The Series 2004B Bonds were issued as auction rate securities, accruing interest at auction rates for successive 35-day auction periods, and have a final maturity of June 1, 2034. The Series 2004C Bonds bear interest at fixed rates ranging from 4.625% to 5.25%, and have a final maturity date of March 1, 2026. The Series 2004D Bonds bear interest at a fixed rate of 5.00% and have a final maturity date of March 1, 2028.

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**DEBT SERVICE OBLIGATIONS (CONT'D.)**

**2003-2004 Debt Issues (Cont'd.)**

- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

*Allocations awarded on March 26, 2003, resulting in bond issuances in July and August 2003:*

- Oaks of Almaden Apartments (\$8.35 million), closed July 29, 2003
- Cinnabar Commons Apartments (\$25.9 million), closed August 7, 2003

*Allocations awarded on July 9, 2003, resulting in bond issuance in November 2003:*

- Almaden Family Apartments (\$31.3 million), closed November 14, 2003

*Allocations awarded on December 17, 2003, resulting in bond issuances in March 2004:*

- Trestles Apartments (\$8.625 million), closed March 4, 2004

*Allocation awarded on April 21, 2004, resulting in bond issuance in June 2004:*

- Aspen Vintage Tower Apartments (\$5.5 million), closed June 28, 2004

**2004-2005 Planned Debt Issues**

- **General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects)** The City issued \$118.7 million of Series 2004 general obligation bonds on July 14, 2004. The proceeds will be used to fund \$58.3 million of library projects, \$46.0 million of neighborhood parks and recreation projects, and \$14.4 million of public safety projects. Debt service on the Series 2004 bonds is payable from *ad valorem* taxes levied upon all property subject to taxation by the City. The Series 2004 bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2034.
- **Expansion of City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program** In Fall 2004, City staff anticipates expanding the capacity of the City of San José Financing Authority tax-exempt lease revenue commercial paper program by approximately \$10 million. This additional capacity will be used to finance the purchase, installation, and integration of an Integrated Utility Billing, Customer Service and Performance Management System ("CUSP").

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**DEBT SERVICE OBLIGATIONS (CONT'D.)**

**2004-2005 Planned Debt Issues (Cont'd.)**

- **Land Acquisition Lease Revenue Bonds** City staff is working on the development of a financing plan for the acquisition of land adjacent to the Norman Y. Mineta San José International Airport. A portion of the land is anticipated to be used for aviation purposes, including construction staging and parking. The financing plan is expected to include lease revenue bonds, with payments received from the Airport supporting debt service, and a HUD Section 108 loan secured by the City's Community Development Block Grant (CDBG) revenues. It is anticipated that this financing will close in December 2004.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds** In Winter 2004, the Redevelopment Agency is planning to issue a series of tax-exempt housing set-aside tax allocation bonds. The bond proceeds will be used to refund the Agency's outstanding Housing Set-Aside Revenue Bonds, Series 1993D, to repay draws on the \$50 million Housing Department Line of Credit, and to fund additional affordable housing projects. The timing of this issuance depends on the programmatic cash flow needs of the Housing Department and the resulting speed with which it draws down its Line of Credit. This will be one of the first issuances under CDLAC's new program to allow for the issuance of private-activity tax-exempt tax allocation bonds to fund loans to affordable housing projects.
- **General Obligation Bonds, Series 2005 (Libraries, Parks and Public Safety Projects)** The City plans to issue another series of general obligation bonds in June or July 2005. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.
- **Multi-Family Housing Revenue Bonds** The Housing Department anticipates submitting an application to CDLAC on behalf of the following project, with allocation scheduled to be awarded on September 15, 2004:
  - Delmas Park Apartments (\$20 million)